

NELSON COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND
REPORTS OF INDEPENDENT AUDITORS**

YEAR ENDED JUNE 30, 2011

NELSON COUNTY SCHOOL DISTRICT

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REPORT OF INDEPENDENT AUDITORS

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky 40004

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nelson County School District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nelson County School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract-General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nelson County School District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, as of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated as of the date of this report, on our consideration of the Nelson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 40 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nelson County School District's basic financial statements. The additional information shown on pages 42 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 48 through 49 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Nelson County School District. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Smith & Company CPA's, PLLC".

Bardstown, Kentucky
November 8, 2011

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

As management of the Nelson County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District was \$7.821 million.
- Issued approximately \$11.930 million in bonds during the current fiscal year for various construction projects, primarily Thomas Nelson High School.
- Construction in process increased approximately \$17.650 million primarily due to ongoing construction related to Thomas Nelson High School.
- Local tax levied at the four percent rate increase of 62.2 cents per \$100 for real estate and tangible property. No change in the motor vehicle tax at 58.8 cents per \$100 of assessed property.
- From fiscal year 2010 to 2011, total general fund revenue remained level primarily due to a decrease in state funding offset by slightly higher tax revenues.
- The district adopted a budget in May 2011 for the upcoming year with \$2.672 million in contingency (6.7% of total budgeted expenditures).
- The composition of the Board of Education remained the same as the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The government-wide financial statements can be found on pages 10 through 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service and day care operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 through 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by approximately \$33.6 million as of June 30, 2011.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

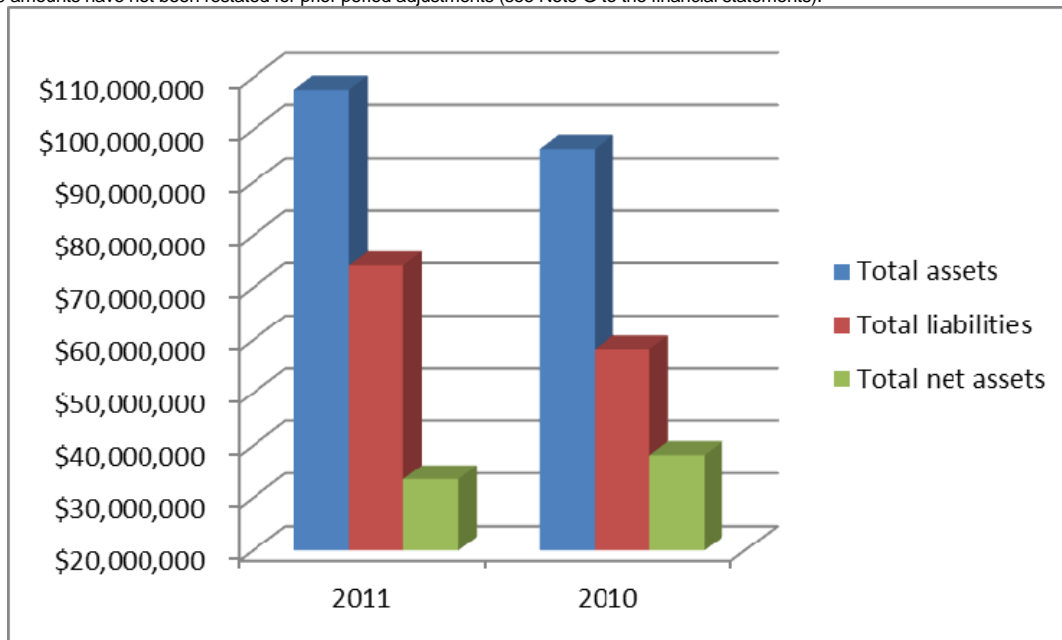
Net Assets

The 2011 Government-wide net assets compared to 2010 are as follows:

Net Assets
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 18,246,301	\$ 24,466,973	\$ 1,101,700	\$ 1,031,587	\$ 19,348,001	\$ 25,498,560
Capital assets	87,761,169	70,452,036	638,313	493,671	88,399,482	70,945,707
Total assets	106,007,470	94,919,009	1,740,013	1,525,258	107,747,483	96,444,267
Long-term debt	68,380,310	55,137,829	-	-	68,380,310	55,137,829
Other liabilities	5,812,595	3,097,170	-	5,714	5,812,595	3,102,884
Total liabilities	74,192,905	58,234,999	-	5,714	74,192,905	58,240,713
Net assets:						
Invested in capital assets						
net of related debt	16,899,299	13,692,398	638,313	493,671	17,537,612	14,186,069
Restricted	12,540,496	22,553,449	-	-	12,540,496	22,553,449
Unrestricted	2,374,770	438,163	1,101,700	1,025,873	3,476,470	1,464,036
Total net assets	\$ 31,814,565	\$ 36,684,010	\$ 1,740,013	\$ 1,519,544	\$ 33,554,578	\$ 38,203,554

Note: 2010 amounts have not been restated for prior period adjustments (see Note G to the financial statements).



The following are significant current year transactions impacting the Statement of Net Assets:

- A prior period adjustment was recorded for \$8.1 million related to the School Facilities Construction Commission portion of bonds payable omitted at June 30, 2010.
- Revenues exceed expenses by approximately \$2.5 million primarily due to the increase in property tax revenue and additional investment earnings on bond proceeds issued during the year over the interest rate of the bonds.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

Change in Net Assets

The following Table 2 presents the summary of changes in net assets for the fiscal years ending June 30, 2011 and 2010.

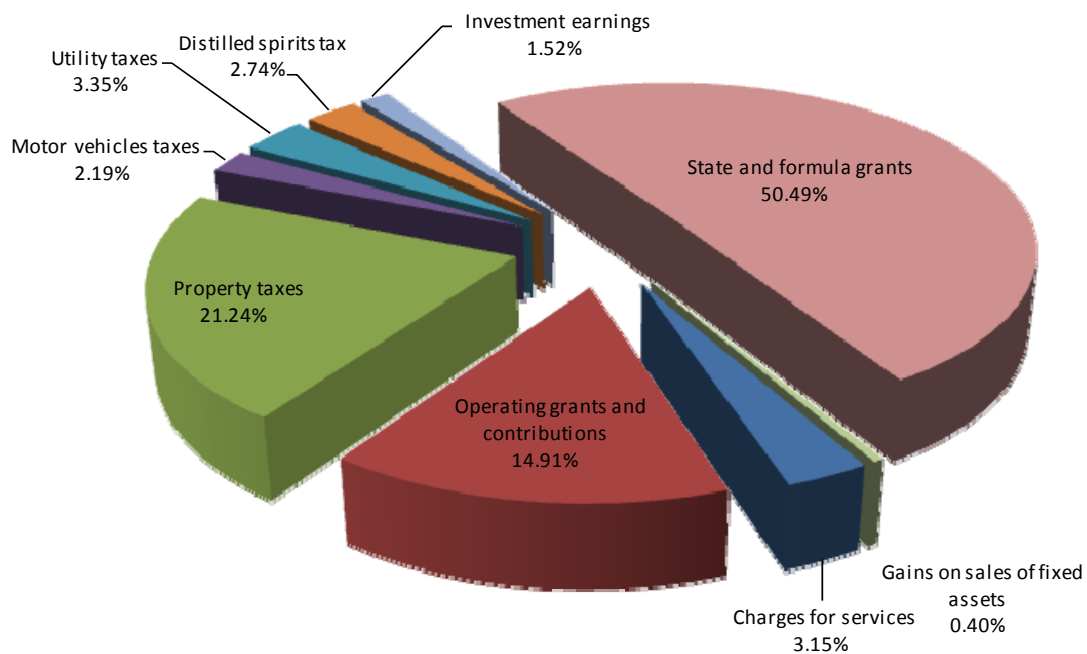
Changes in Net Assets
(Table 2)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues						
Charges for services	\$ 142,679	\$ 121,396	\$ 1,378,789	\$ 1,446,867	\$ 1,521,468	\$ 1,568,263
Operating grants and contributions	5,502,660	107,753	1,695,096	1,606,041	7,197,756	1,713,794
General Revenues						
Property taxes	10,251,707	10,911,342	-	-	10,251,707	10,911,342
Motor vehicle taxes	1,056,078	983,030	-	-	1,056,078	983,030
Utility taxes	1,617,674	1,573,986	-	-	1,617,674	1,573,986
Distilled spirits tax	1,321,944	-	-	-	1,321,944	-
Investment earnings	723,202	476,313	12,000	12,149	735,202	488,462
State and formula grants	24,370,918	29,680,643	-	-	24,370,918	29,680,643
Gains on sales of fixed assets	195,162	-	-	-	195,162	-
Miscellaneous	-	357,986	-	-	-	357,986
Total revenues	45,182,024	44,212,449	3,085,885	3,065,057	48,267,909	47,277,506
EXPENSES						
Program Activities						
Instruction	24,566,323	22,538,505	-	-	24,566,323	22,538,505
Student support	1,756,533	1,666,391	-	-	1,756,533	1,666,391
Instruction staff support	2,385,690	2,340,959	-	-	2,385,690	2,340,959
District administration support	1,183,397	951,859	-	-	1,183,397	951,859
School administrative support	2,457,675	2,501,140	-	-	2,457,675	2,501,140
Business support	1,145,351	1,196,017	-	-	1,145,351	1,196,017
Plant operation and maintenance	3,828,768	3,890,925	-	-	3,828,768	3,890,925
Student transportation	3,511,663	3,138,195	-	-	3,511,663	3,138,195
Facilities acquisition	272,989	8,769	-	-	272,989	8,769
Community service activities	347,269	342,217	-	-	347,269	342,217
Interest on long-term debt	1,417,669	1,640,646	-	-	1,417,669	1,640,646
Depreciation - unallocated	-	2,712,350	-	-	-	2,712,350
Business-type Activities						
Food service	-	-	2,340,661	2,255,285	2,340,661	2,255,285
Child care	-	-	524,755	605,225	524,755	605,225
Total expenses	42,873,327	42,927,973	2,865,416	2,860,510	45,738,743	45,788,483
CHANGE IN NET ASSETS	\$ 2,308,697	\$ 1,284,476	\$ 220,469	\$ 204,547	\$ 2,529,166	\$ 1,489,023

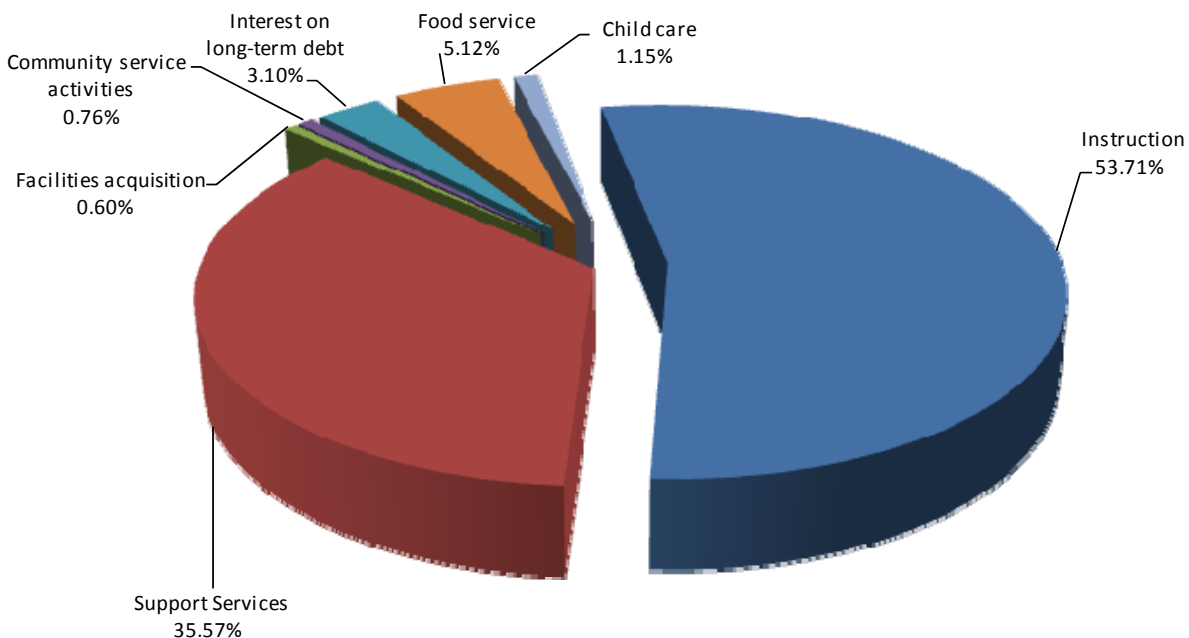
Note: 2010 amounts have not been restated for prior period adjustments (see Note G to the financial statements).

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

The following provides a breakdown of total primary government revenues for the year ending June 30, 2011:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2011:



NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

Capital Assets

At the end of fiscal year 2011, the School District had approximately \$87.979 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2011 and 2010 balances.

**Capital Assets, Net of Depreciation
 (Table 3)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,700,543	\$ 2,700,543	\$ -	\$ -	\$ 2,700,543	\$ 2,700,543
Buildings and improvements	60,178,398	62,437,540	-	-	60,178,398	62,437,540
Technology Equipment	401,002	336,029	7,047	2,127	408,049	338,156
Vehicles	1,633,439	1,330,730	-	-	1,633,439	1,330,730
General equipment	335,426	331,314	631,266	491,544	966,692	822,858
Total	<u>65,248,808</u>	<u>67,136,156</u>	<u>638,313</u>	<u>493,671</u>	<u>65,887,121</u>	<u>67,629,827</u>
Construction in process	<u>22,092,333</u>	<u>4,442,632</u>	<u>-</u>	<u>-</u>	<u>22,092,333</u>	<u>4,442,632</u>
Total	<u>\$ 87,341,141</u>	<u>\$ 71,578,788</u>	<u>\$ 638,313</u>	<u>\$ 493,671</u>	<u>\$ 87,979,454</u>	<u>\$ 72,072,459</u>

Note: 2010 amounts have not been restated for prior period adjustments (see Note G to the financial statements).

The following were major additions to capital assets during fiscal year 2011:

Construction in process related to Thomas Nelson High School	\$ <u>12,461,379</u>
Construction in process related to Foster Heights Elementary	\$ <u>1,731,069</u>
Construction in process related to Nelson Co. Early Childhood	\$ <u>2,033,131</u>
Construction in process related to Nelson Co. Athletics Renovation	\$ <u>1,424,122</u>
Nine school buses	\$ <u>672,137</u>

Debt

At June 30, 2011, the School District had \$71,273,505 in bonds outstanding, of this amount, \$9,191,048 is to be paid by the Kentucky School Facility Construction Commission. A total of \$2,863,697 is due within one year.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20-39 of this report.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2011

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal, operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$2.7 million in contingency (6.7%).

ADDITIONAL CONTACT INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Tim Hockensmith, Director of Administrative Services, 288 Wildcat Lane, Bardstown, Kentucky, 40004, (502) 349-7000.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2011

Assets	Governmental Activities	Business-Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 6,884,325	\$ 936,253	\$ 7,820,578
Inventory	-	165,447	165,447
Accounts receivable:			
Taxes - current	107,928	-	107,928
Taxes - delinquent	7,604	-	7,604
Intergovernmental - State	243,319	-	243,319
Intergovernmental - Indirect Federal	757,336	-	757,336
Investments	10,245,789	-	10,245,789
Total Current Assets	18,246,301	1,101,700	19,348,001
<u>Noncurrent Assets</u>			
Capital assets	97,574,349	1,602,010	99,176,359
Accumulated depreciation	(32,325,541)	(963,697)	(33,289,238)
Construction in progress	22,092,333	-	22,092,333
Bond issue costs	420,028	-	420,028
Total noncurrent assets	87,761,169	638,313	88,399,482
Total Assets	<u>\$ 106,007,470</u>	<u>\$ 1,740,013</u>	<u>\$ 107,747,483</u>
Liabilities & Net Assets			
<u>Current Liabilities</u>			
Accounts Payable	\$ 2,235,436	\$ -	\$ 2,235,436
Deferred revenue	121,921	-	121,921
Interest payable	410,551	-	410,551
Current portion of bond obligations	2,863,697	-	2,863,697
Current portion of accrued sick leave	180,990	-	180,990
Total Current Liabilities	5,812,595	-	5,812,595
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	68,409,808	-	68,409,808
Less: bond discount	(831,663)	-	(831,663)
Noncurrent portion of accrued sick leave	802,165	-	802,165
Total Noncurrent Liabilities	68,380,310	-	68,380,310
Total Liabilities	<u>74,192,905</u>	<u>-</u>	<u>74,192,905</u>
<u>Net Assets</u>			
Invested In capital assets, net of related debt	16,899,299	638,313	17,537,612
Restricted for:			
Construction	12,540,496	-	12,540,496
Unrestricted	2,374,770	1,101,700	3,476,470
Total Net Assets	<u>\$ 31,814,565</u>	<u>\$ 1,740,013</u>	<u>\$ 33,554,578</u>

See accompanying report of independent auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

FUNCTIONS / PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue And Changes In Net Assets		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 24,566,323	\$ 48,765	\$ 5,502,660	\$ -	\$ (19,014,898)	\$ -	\$ (19,014,898)
Support Services:							
Student	1,756,533	-	-	-	(1,756,533)	-	(1,756,533)
Instruction staff	2,385,690	-	-	-	(2,385,690)	-	(2,385,690)
District administration	1,183,397	-	-	-	(1,183,397)	-	(1,183,397)
School administrative	2,457,675	-	-	-	(2,457,675)	-	(2,457,675)
Business	1,145,351	-	-	-	(1,145,351)	-	(1,145,351)
Plant operation and maintenance	3,828,768	-	-	-	(3,828,768)	-	(3,828,768)
Student transportation	3,511,663	93,914	-	-	(3,417,749)	-	(3,417,749)
Facilities acquisition and construction	272,989	-	-	-	(272,989)	-	(272,989)
Community service activities	347,269	-	-	-	(347,269)	-	(347,269)
Interest on long-term debt	1,417,669	-	-	-	(1,417,669)	-	(1,417,669)
Total Governmental Activities	42,873,327	142,679	5,502,660	-	(37,227,988)	-	(37,227,988)
Business-Type Activities:							
Food service	2,340,661	891,930	1,611,777	-	-	163,046	163,046
Child care	524,755	486,859	83,319	-	-	45,423	45,423
Total Business-Type Activities	2,865,416	1,378,789	1,695,096	-	-	208,469	208,469
Total Primary Government	\$ 45,738,743	\$ 1,521,468	\$ 7,197,756	\$ -	(37,227,988)	208,469	(37,019,519)
General revenues:							
Taxes:							
Property taxes					10,251,707	-	10,251,707
Motor vehicles taxes					1,056,078	-	1,056,078
Utility taxes					1,617,674	-	1,617,674
Distilled spirits tax					1,321,944	-	1,321,944
Investment earnings					723,202	12,000	735,202
State aid formula grants					24,370,918	-	24,370,918
Miscellaneous					195,162	-	195,162
Total general revenues					39,536,685	12,000	39,548,685
Change In Net Assets					2,308,697	220,469	2,529,166
Net Assets - Beginning (as previously reported)					36,684,010	1,519,544	38,203,554
Prior Period Adjustment					(7,178,142)	-	(7,178,142)
Net Assets - Beginning (as restated)					29,505,868	1,519,544	31,025,412
Net Assets - Ending					\$ 31,814,565	\$ 1,740,013	\$ 33,554,578

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2011

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 3,000,476	\$ -	\$ 4,521,471	\$ -	\$ 7,521,947
Accounts receivable	358,850	757,336	-	-	1,116,186
Investments	-	-	10,245,789	-	10,245,789
Total Assets	<u>\$ 3,359,326</u>	<u>\$ 757,336</u>	<u>\$ 14,767,260</u>	<u>\$ -</u>	<u>\$ 18,883,922</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 10,878	\$ (2,207)	\$ 2,226,764	\$ -	\$ 2,235,435
Cash overdraft	-	637,622	-	-	637,622
Deferred revenue	-	121,921	-	-	121,921
Total Liabilities	<u>10,878</u>	<u>757,336</u>	<u>2,226,764</u>	<u>-</u>	<u>2,994,978</u>
Fund Balances:					
Restricted	-	-	12,540,496	-	12,540,496
Committed	1,270,756	-	-	-	1,270,756
Assigned	62,748	-	-	-	62,748
Unrestricted	2,014,944	-	-	-	2,014,944
Total Fund Balances	<u>3,348,448</u>	<u>-</u>	<u>12,540,496</u>	<u>-</u>	<u>15,888,944</u>
Total Liabilities and Fund Balances	<u>\$ 3,359,326</u>	<u>\$ 757,336</u>	<u>\$ 14,767,260</u>	<u>\$ -</u>	<u>\$ 18,883,922</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

Total fund balance per fund financial statements	\$ 15,888,944
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	87,341,141
Certain long-term assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	420,028
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	
Bonds payable	(71,273,505)
Bond discount and cost of issues	831,663
Interest payable	(410,551)
Accrued sick leave	<u>(983,155)</u>
Net assets for governmental activities	<u>\$ 31,814,565</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	General	Special	Construction	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 7,123,415	\$ -	\$ -	\$ 3,128,292	\$ 10,251,707
Motor vehicle	1,056,078	-	-	-	1,056,078
Utilities	1,617,674	-	-	-	1,617,674
Distilled spirits tax	1,321,944	-	-	-	1,321,944
Tuition and fees	-	48,765	-	-	48,765
Earnings on investments	372,820	259	350,123	-	723,202
Other local revenues	131,141	155,795	403,453	-	690,389
Intergovernmental - state	21,368,452	1,630,557	-	1,437,173	24,436,182
Intergovernmental - indirect federal	-	4,870,613	-	-	4,870,613
Intergovernmental - direct federal	-	128,555	-	-	128,555
Total revenues	<u>32,991,524</u>	<u>6,834,544</u>	<u>753,576</u>	<u>4,565,465</u>	<u>45,145,109</u>
Expenditures:					
Instruction	17,479,514	5,127,160	-	-	22,606,674
Support services:					
Student	1,453,974	272,906	-	-	1,726,880
Instruction staff	1,922,939	417,464	-	-	2,340,403
District administration	1,129,260	-	-	-	1,129,260
School administrative	2,445,058	-	-	-	2,445,058
Business	1,007,337	504,581	-	-	1,511,918
Plant operation and maintenance	3,425,471	94,230	-	-	3,519,701
Student transportation	3,168,513	407,569	-	-	3,576,082
Facilities acquisition and maintenance	-	-	17,930,806	-	17,930,806
Community service activities	281	346,988	-	-	347,269
Debt service	-	-	-	4,308,245	4,308,245
To Total Expenditures	<u>32,032,347</u>	<u>7,170,898</u>	<u>17,930,806</u>	<u>4,308,245</u>	<u>61,442,296</u>
Excess (Deficit) of Revenues Over Expenditures	959,177	(336,354)	(17,177,230)	257,220	(16,297,187)
Other financing sources (uses)					
Proceeds from sale of bonds	-	-	9,186,019	-	9,186,019
Proceeds from sale of fixed assets	37,054	-	-	-	37,054
Operating transfers in	-	336,354	257,220	-	593,574
Operating transfers out	(336,354)	-	-	(257,220)	(593,574)
Total other financing sources (uses)	<u>(299,300)</u>	<u>336,354</u>	<u>9,443,239</u>	<u>(257,220)</u>	<u>9,223,073</u>
Net Change in Fund Balances	659,877	-	(7,733,991)	-	(7,074,114)
Fund Balance, July 1, 2010	<u>2,599,859</u>	<u>-</u>	<u>21,282,693</u>	<u>-</u>	<u>23,882,552</u>
Prior Period Adjustment	<u>88,712</u>	<u>-</u>	<u>(1,008,206)</u>	<u>-</u>	<u>(919,494)</u>
Fund Balance, June 30, 2011	<u>\$ 3,348,448</u>	<u>\$ -</u>	<u>\$ 12,540,496</u>	<u>\$ -</u>	<u>\$ 15,888,944</u>

See accompanying report of independent auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

Net change in total fund balances per fund financial statements	\$ (7,074,114)
Amounts reported for governmental activities in the statement of activities are different because of the following:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	15,762,491
Bond proceeds are reported as revenues in this fund statement because it creates current financial resources, but they are separated and shown as long-term debt on the statement of net assets.	(9,186,019)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long-term debt on the statement of net assets and interest expense on the statement of activities. The difference is the amount of principal payment made for the year.	2,924,502
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(118,163)</u>
Change in net assets of governmental activities	<u><u>\$ 2,308,697</u></u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS**

JUNE 30, 2011

	Food Service Fund	Other Enterprise Funds	Total
Assets			
<u>Current Assets</u>			
Cash & Cash Equivalents	\$ 561,269	\$ 374,984	\$ 936,253
Inventory	165,447	-	165,447
Accounts Receivable	-	-	-
Due From Other Funds	-	-	-
Investments	-	-	-
Total Current Assets	726,716	374,984	1,101,700
<u>Noncurrent Assets</u>			
Capital Assets	1,601,931	79	1,602,010
Accumulated Depreciation	(963,618)	(79)	(963,697)
Total Noncurrent Assets	638,313	-	638,313
Total Assets	<u>\$ 1,365,029</u>	<u>\$ 374,984</u>	<u>\$ 1,740,013</u>
Liabilities & Net Assets			
<u>Current Liabilities</u>			
Accounts Payable	\$ -	\$ -	\$ -
Accrued Payroll & Related Expenses	-	-	-
Due To Other Funds	-	-	-
Total Current Liabilities	-	-	-
<u>Net Assets</u>			
Invested In Capital Assets, Net Of Related Debt	638,313	-	638,313
Unrestricted	726,716	374,984	1,101,700
Total Net Assets	<u>\$ 1,365,029</u>	<u>\$ 374,984</u>	<u>\$ 1,740,013</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS****PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2011

	Food Service Fund	Other Enterprise Fund	Total
Operating revenues:			
Lunchroom sales	\$ 888,570	\$ -	\$ 888,570
Tuition and fees	-	486,859	486,859
Other operating revenues	3,361	-	3,361
Total operating revenues	891,931	486,859	1,378,790
Operating expenses:			
Salaries and wages	1,356,817	483,879	1,840,696
Materials and supplies	848,084	29,507	877,591
Depreciation	75,551	-	75,551
Other operating expenses	60,208	11,371	71,579
Total operating expenses	2,340,660	524,757	2,865,417
Income (loss) from operations	(1,448,729)	(37,898)	(1,486,627)
Non-operating revenues (expenses):			
Federal grants	1,360,625	-	1,360,625
State grants	251,152	83,319	334,471
Interest income	12,000	-	12,000
Total Non-Operating Revenues (Expenses)	1,623,777	83,319	1,707,096
Change in net assets	175,048	45,421	220,469
Net Assets, July 1, 2010	1,189,981	329,563	1,519,544
Net Assets, June 30, 2011	\$ 1,365,029	\$ 374,984	\$ 1,740,013

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	Food Service Fund	Other Enterprise Fund	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	\$ 888,570	\$ -	\$ 888,570
Tuition and fees	-	486,859	486,859
Other activities	3,361	-	3,361
Cash paid to / for:			
Employees	(1,356,817)	(483,879)	(1,840,696)
Supplies	(960,257)	(28,046)	(988,303)
Other activities	(67,384)	(11,371)	(78,755)
Net Cash Provided by Operating Activities	(1,492,527)	(36,437)	(1,528,964)
Cash Flows From Non-Capital Financing Activities			
Federal grants	1,360,625	-	1,360,625
State grants	251,152	83,319	334,471
Net Cash Provided by Non-Capital Financing Activities	1,611,777	83,319	1,695,096
Cash Flows From Capital & Related Financing Activities			
Purchases Of Capital Assets	(220,192)	-	(220,192)
Cash Flows From Investing Activities			
Receipt of interest income	12,000	-	12,000
Net increase in cash and cash equivalents	(88,942)	46,882	(42,060)
Balances, beginning of year	650,211	328,102	978,313
Balances, end of year	\$ 561,269	\$ 374,984	\$ 936,253
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	(1,448,729)	(37,898)	(1,486,627)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	75,551	-	75,551
Change in assets and liabilities:			
Inventory	(112,173)	-	(112,173)
Accounts payable	(7,176)	1,461	(5,715)
Net Cash Provided By Operating Activities	\$ (1,492,527)	\$ (36,437)	\$ (1,528,964)

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2011

	Agency Funds
Assets	
Cash and cash equivalents	\$ 656,051
Accounts receivable	-
Total Assets	\$ 656,051
Liabilities	
Accounts payable	\$ -
Due to student groups	656,051
Total Liabilities	656,051
Net Assets Held In Trust	\$ -

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Nelson County Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Nelson County Board of Education (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Nelson County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

During the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions."* The standard established the fund balance categories of nonspendable, restricted, committed, assigned and unassigned. Information concerning the District's fund balances can be found in Note G.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Nelson County School District Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Nelson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the Corporation) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation

The District's basic financial statement consist of government-wide statements, including state of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities accompanied by a total column.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well long-term liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for on the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and utility tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 48 - 49. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Child Care Fund is used to account for after school revenues and programs where a fee is charged for participating.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds is used to report trust arrangements under which the income benefits individuals, private organizations or other governments.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2011, to finance the General Fund operations were \$0.622 per \$100 valuation for real property, \$0.622 per \$100 valuation for business personal property and \$0.548 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	25-50 years
Land Improvements	20 years
Technology Equipment	5 years
Vehicles	5-10 years
Food Service Equipment	10-12 years
Furniture and Fixtures	7 years

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2011 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Operating Revenues

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$10,599,532. \$250,000 of bank account balances per separate banks is covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Breakdown per financial statements:

Governmental Funds	\$	6,884,325
Proprietary Funds		<u>936,253</u>
	\$	<u><u>7,820,578</u></u>

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE C – CASH AND CASH EQUIVALENTS – CONTINUED

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$656,051.

NOTE D – DEPOSITS AND INVESTMENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

Investments

The District may legally invest in certificates of deposit and other interest bearing accounts insured by the Federal Deposit Insurance Corporation (FDIC), uncollateralized certificates of deposit rated in one of the three highest categories by a nationally recognized rating agency; obligations of the United States and of its agencies and instrumentalities, including any corporation of the United States government, bonds or certificates of indebtedness of the State of Kentucky and any of its agencies and instrumentalities; or securities issued by a state or local government or any instrumentalities or agency thereof in the United States and rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency and certain mutual funds as more fully described in KRS 66.480. All of the investments of the District are held in U.S. government agency obligations, which carry the explicit guarantee of the U.S. government or certificates of deposit that are insured by the FDIC.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

At June 30, 2011 the District had the following investments:

Type	Maturity	Interest Rate	Fair Value
Tennessee Valley Authority Federal Coupon STRIPS	7/15/2011	0.00%	\$ 925,713
Certificate of Deposit - Associated Bank Green Bay N.A.	8/3/2011	0.85%	200,062
Certificate of Deposit - Bank of America N.A. Charlotte	8/3/2011	0.85%	200,062
Federal Home Loan Mortgage Corp. Note	8/15/2011	1.25%	4,035,682
Certificate of Deposit - Trust Atlantic Bank Greenville NC	8/22/2011	0.80%	200,120
Certificate of Deposit - Issaquah Community Bank	9/12/2011	0.90%	200,164
Certificate of Deposit - Bank of Iowa Altoona	10/11/2011	1.00%	200,280
Federal Home Loan Bank Fixed Rate Series Note	10/28/2011	0.26%	3,431,784
Certificate of Deposit - Bay Bank Green Bay Wisconsin	11/7/2011	0.85%	200,236
Certificate of Deposit - ISB Community Bank	11/28/2011	1.00%	200,394
Certificate of Deposit - KAW VY Bank Topeka Kansas	12/12/2011	1.00%	200,432
Certificate of Deposit - Merchants Bank California	1/5/2012	1.00%	250,860
			<u>\$ 10,245,789</u>

Concentration of Credit Risk - The District, in accordance with KRS 66.480, limits the amount that may be invested at any time in uncollateralized certificates of deposit, bankers acceptances, commercial paper and securities issued by a state or local government or any instrumentality or agency thereof, to 20% of the total amount of funds invested by the District. At June 30, 2011, the District did not hold any investments in excess of this limit.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by the District are insured or collateralized with securities held by the financial institution in the District's name.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

Governmental Activities	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Non-depreciable assets:				
Land	\$ 2,700,543	\$ -	\$ -	\$ 2,700,543
Construction in process	4,442,632	17,649,701	-	22,092,333
Depreciable assets:				
Buildings and improvements	85,788,564			85,788,564
Technology equipment	2,028,473	214,440	107,822	2,135,091
Vehicles	5,791,970	694,450	957,451	5,528,969
General equipment	1,404,159	59,223	42,200	1,421,182
Totals at historical cost	102,156,341	18,617,814	1,107,473	119,666,682
Accumulated depreciation				
Buildings and improvements	23,351,024	2,259,142	-	25,610,166
Technology equipment	1,692,444	149,330	107,684	1,734,090
Vehicles	4,461,240	391,741	957,451	3,895,530
General equipment	1,072,845	55,110	42,200	1,085,755
Total accumulated Depreciation	30,577,553	2,855,323	1,107,335	32,325,541
Governmental activities capital assets, net	\$ 71,578,788	\$ 15,762,491	\$ 138	\$ 87,341,141

Depreciation was charged to governmental functions as follows:

Instruction	\$ 2,042,009
District administration	54,137
School administration	12,617
Business support	16,084
Plant	343,745
Transportation	386,731
Total	\$ 2,855,323

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Technology Equipment	\$ 57,397	\$ 6,553	\$ -	\$ 63,950
General equipment	1,324,421	213,639	-	1,538,060
Totals at historical cost	1,381,818	220,192	-	1,602,010
Accumulated depreciation				
Technology Equipment	55,270	1,633	-	56,903
General equipment	832,877	73,917	-	906,794
Total accumulated depreciation	888,147	75,550	-	963,697
Business-type activities capital assets – net	\$ 493,671	\$ 144,642	\$ -	\$ 638,313

NOTE F – LONG-TERM OBLIGATIONS

The original amount of each issue, issue date, and interest rates are summarized below:

Issue Date	Original Proceeds	Interest Rates
1994	\$ 117,422	5.20%
1998	4,265,000	4.0% - 4.625%
2002	5,365,000	2.0% - 4.0%
2003	14,275,000	3.0% - 4.0%
2004	3,885,000	2.0% - 3.8%
2005	7,245,000	3.0% - 4.0%
2006	2,890,000	3.4% - 4.0%
2007	8,475,000	3.75%
2009	8,250,000	1.4% - 4.0%
2010 A	2,595,000	1.0% - 2.875%
2010 B	20,795,000	0.8 % - 6.0%
2010 C	8,555,000	1.0% - 5.65%
2011	780,000	1.4% - 4.5%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Nelson County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2011 for debt service (principal and interest) are as follows:

	Nelson County School District		Kentucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 2,324,313	\$ 2,183,214	\$ 539,384	\$ 355,050	\$ 2,863,697	\$ 2,538,264
2013	2,385,132	2,122,657	527,718	338,802	2,912,850	2,461,459
2014	2,455,952	2,051,643	541,006	321,964	2,996,958	2,373,607
2015	2,537,520	1,972,889	562,480	303,461	3,100,000	2,276,350
2016	2,632,118	1,873,526	582,882	283,628	3,215,000	2,157,154
2017 - 2021	14,533,105	8,006,994	2,931,895	1,092,467	17,465,000	9,099,461
2022 - 2026	17,459,090	5,060,575	2,655,910	484,748	20,115,000	5,545,323
2027 - 2031	17,755,227	1,563,263	849,773	93,470	18,605,000	1,656,733
	<u>\$ 62,082,457</u>	<u>\$ 24,834,761</u>	<u>\$ 9,191,048</u>	<u>\$ 3,273,590</u>	<u>\$ 71,273,505</u>	<u>\$ 28,108,351</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due in One Year
Revenue bonds payable	\$ 64,863,008	\$ 11,930,000	\$ 5,519,503	\$ 71,273,505	\$ 2,863,697
Accrued sick leave	890,940	256,230	164,015	983,155	180,990
	<u>\$ 65,753,948</u>	<u>\$ 12,186,230</u>	<u>\$ 5,683,518</u>	<u>\$ 72,256,660</u>	<u>\$ 3,044,687</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay fund. The general fund is primarily responsible for paying accrued sick leave.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE G – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2011, the District had \$12,540,496 as restricted for capital projects in the Construction Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had \$1,270,756 in committed funds at June 30, 2011 committed as follows: \$265,756 for technology, \$430,000 for future construction, \$325,000 for buses, and \$250,000 committed for sick leave.

Assigned fund balances represent amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2011, was \$62,748. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE H – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by and operating under Kentucky law.

The KTRS covers all certified full-time employees of each school board. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the KTRS, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE H – RETIREMENT PLANS – CONTINUED

Participating employees hired before July 1, 2008 contribute 9.855% of creditable compensation. Participating employees hired on or after July 1, 2008 contribute 10.855% of creditable compensation. Matching contributions are made by the state. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 13.355% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2011 for participating employees hired before July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 14.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2011 for participating employees hired on or after July 1, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2011 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky

Three-year Trend Information

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2009	\$ 1,917,480	\$ 98,836	\$ 2,016,316
6/30/2010	\$ 1,964,924	\$ 180,196	\$ 2,145,120
6/30/2011	\$ 2,020,652	\$ 224,578	\$ 2,245,230

County Employees Retirement System

Employees who work on average of 80 hours per month over their contract participate in the County Employees Retirement System (CERS), which is a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky law.

The CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability, and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the CERS, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601-6124.

Participating employees hired before September 1, 2008 contribute 5.00% of creditable compensation. Participating employees hired on or after September 1, 2008, contribute 6.00% of creditable compensation. The District contributed 16.93% of creditable compensation during the fiscal year ended June 30, 2011. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE H – RETIREMENT PLANS – CONTINUED

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2011 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

Three-year Trend Information

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2009	\$ 300,227	\$ 808,902	\$ 1,109,129
6/30/2010	\$ 303,988	\$ 972,537	\$ 1,276,525
6/30/2011	\$ 300,483	\$ 1,002,750	\$ 1,303,233

NOTE I – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress of the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE J – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress. The Nelson County School District is covered by insurance which provides for a defense and response to the litigation.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until 24 months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving 90 days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. There are also no funds having operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance.

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 336,354
Nonmajor Governmental	Construction Fund	Construction Project	\$ 257,220
Food Service Fund	Construction Fund	Food Service Equipment	\$ 116,550
Construction Fund	Food Service Fund	Food Service Equipment	\$ 116,550

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2011 was \$6,623,444. These payments were recorded as follows:

General Fund	\$ 6,314,011
Food Service Fund	226,114
Child Care Fund	<u>83,319</u>
	\$ <u>6,623,444</u>

NOTE Q – PRIOR PERIOD ADJUSTMENTS

During the current year, it was determined that certain prior year assets and liabilities were not properly accounted for and, therefore, the prior period has been adjusted in the current year financial statements. Details of the adjustments are as follows:

Net assets of governmental activities, as previously reported	\$ 36,684,010
Prior period adjustments:	
School Facilities Construction Commission portion of bonds payable omitted at June 30, 2010	(8,103,370)
Cost of bond issuances omitted as of June 30, 2010	350,329
Bond discounts omitted as of June 30, 2010	752,382
Interest payable on bonds omitted as of June 30, 2010	(384,741)
Property taxes receivable omitted as of June 30, 2010	88,712
Capital assets omitted as of June 30, 2010	118,546
Construction in process omitted as of June 30, 2010	1,008,205
Accounts payable omitted as of June 30, 2010	<u>(1,008,205)</u>
Net assets of governmental activities, as restated	29,505,868
Current year change in net assets – governmental activities	<u>2,308,697</u>
Net assets of governmental activities at June 30, 2011	\$ <u>31,814,565</u>

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE Q – PRIOR PERIOD ADJUSTMENTS – CONTINUED

The effect of the above prior period adjustments on governmental fund balances was as follows:

General Fund:

Fund balance – general fund, as previously reported	\$ 2,599,859
Prior period adjustment:	
Property taxes receivable omitted as of June 30, 2010	<u>88,712</u>
Fund balance – general fund, as restated	2,688,571
Current year change in fund balance – general fund	<u>659,877</u>
Fund balance – general fund at June 30, 2011	\$ <u>3,348,448</u>

Construction Fund:

Fund balance – construction fund, as previously reported	\$ 21,282,693
Prior period adjustment:	
Accounts payable omitted as of June 30, 2010	<u>(1,008,206)</u>
Fund balance – construction fund, as restated	20,274,487
Current year change in fund balance – construction fund	<u>(7,733,991)</u>
Fund balance – construction fund at June 30, 2011	\$ <u>12,540,496</u>

NOTE R – COMMITMENTS

As of June 30, 2011, the District had outstanding commitments for construction approximating \$9,288,000.

NOTE S – SUBSEQUENT EVENTS

In October 2011, the District issued \$8,670,000 in refunding revenue bonds (Series 2011B) to refund the Series 2003 revenue bonds. The bonds carry interest rates between 0.75% and 2.375% and mature April 1, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 6,620,000	\$ 7,035,000	\$ 7,123,415	\$ 88,415
Motor vehicle	1,090,000	1,050,000	1,056,078	6,078
Utilities	1,600,000	1,600,000	1,617,674	17,674
Distilled spirits tax	1,335,000	1,325,000	1,321,944	(3,056)
Tuition and fees	-	-	-	-
Earnings on investments	300,000	325,000	372,820	47,820
Other local revenues	90,000	90,000	131,141	41,141
Intergovernmental - state	15,769,688	14,962,462	21,368,452	6,405,990
Total Revenues	<u>26,804,688</u>	<u>26,387,462</u>	<u>32,991,524</u>	<u>6,604,062</u>
Expenditures:				
Instruction	13,274,332	12,609,006	17,479,514	(4,870,508)
Support services:				
Student	1,142,864	1,211,180	1,453,974	(242,794)
Instruction staff	1,329,784	1,476,652	1,922,939	(446,287)
District administration	868,739	923,136	1,129,260	(206,124)
School administrative	2,036,198	2,000,483	2,445,058	(444,575)
Business	863,336	843,424	1,007,337	(163,913)
Plant operation and maintenance	3,406,663	3,484,279	3,425,471	58,808
Student transportation	2,431,060	2,892,005	3,168,513	(276,508)
Community Service Activities		-	281	(281)
Total Expenditures	<u>25,352,976</u>	<u>25,440,165</u>	<u>32,032,347</u>	<u>(6,592,182)</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>1,451,712</u>	<u>947,297</u>	<u>959,177</u>	<u>11,880</u>
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	-	-	37,054	37,054
Contingency	(1,400,000)	(1,400,000)	-	1,400,000
Operating transfers in	-	-	-	-
Operating transfers out	(476,229)	(372,000)	(336,354)	35,646
Total Other Financing Sources (Uses)	<u>(1,876,229)</u>	<u>(1,772,000)</u>	<u>(299,300)</u>	<u>1,472,700</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ (424,517)</u>	<u>\$ (824,703)</u>	<u>\$ 659,877</u>	<u>\$ 1,484,580</u>
Fund Balance, July 1, 2010	424,517	824,703	2,599,859	
Prior Period Adjustment	-	-	88,712	
Fund Balance, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,348,448</u>	

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
Tuition and fees	\$ -	\$ -	\$ 48,765	\$ 48,765
Earnings on investments	-	-	259	259
Other local revenues	32,000	32,000	155,795	123,795
Intergovernmental - state	1,253,212	1,114,350	1,630,557	516,207
Intergovernmental - indirect federal	3,037,605	3,100,915	4,870,613	1,769,698
Intergovernmental - direct federal	-	-	128,555	128,555
Total Revenues	<u>4,322,817</u>	<u>4,247,265</u>	<u>6,834,544</u>	<u>2,587,279</u>
Expenditures:				
Instruction	3,419,163	3,176,684	5,127,160	(1,950,476)
Support services:	-	-	-	-
Student	121,302	145,138	272,906	(127,768)
Instruction staff	492,788	355,626	417,464	(61,838)
Business	110,000	372,000	504,581	(132,581)
Plant operation and maintenance	15,469	15,469	94,230	(78,761)
Student transportation	218,838	247,067	407,569	(160,502)
Community Service Activities	347,429	307,281	346,988	(39,707)
Total Expenditures	<u>4,724,989</u>	<u>4,619,265</u>	<u>7,170,898</u>	<u>(2,551,633)</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>(402,172)</u>	<u>(372,000)</u>	<u>(336,354)</u>	<u>35,646</u>
Other Financing Sources (Uses)				
Operating transfers in	110,000	372,000	336,354	226,354
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>110,000</u>	<u>372,000</u>	<u>336,354</u>	<u>226,354</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ (292,172)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance, July 1, 2010	<u>292,172</u>	<u>-</u>	<u>-</u>	
Fund Balance, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

NELSON COUNTY SCHOOL DISTRICT**COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2011

	Capital Outlay Fund	Building Fund	Totals
Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable	-	-	-
Investments	-	-	-
Total Assets & Resources	-	-	-
Liabilities & Fund Balances:			
Liabilities:			
Accounts payable	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Restricted	-	-	-
Total Fund Balances	-	-	-
Total Liabilities & Fund Balances	\$ -	\$ -	\$ -

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2011

	Capital Outlay Fund	Building Fund	Totals
Revenues:			
From Local Sources:			
Taxes:			
Property	\$ -	\$ 3,128,292	\$ 3,128,292
Intergovernmental - State	430,442	1,006,731	1,437,173
Total Revenues	<u>430,442</u>	<u>4,135,023</u>	<u>4,565,465</u>
Expenditures	-	-	-
Debt Service	<u>173,222</u>	<u>4,135,023</u>	<u>4,308,245</u>
Total Expenditures	<u>173,222</u>	<u>4,135,023</u>	<u>4,308,245</u>
Excess (deficit) of revenues over expenditures	257,220	-	257,220
Other financing sources (uses)			
Operating transfers out	<u>(257,220)</u>	<u>-</u>	<u>(257,220)</u>
Total other financing sources (uses)	<u>(257,220)</u>	<u>-</u>	<u>(257,220)</u>
Change in Fund Balances	-	-	-
Fund Balance, July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2011	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUNDS

JUNE 30, 2011

	Bloomfield Middle School	New Haven Elementary School	Boston Elementary School	Old Ky Home Middle School	Cox's Creek Elementary School
Assets					
Cash and cash equivalents	\$ 38,769	\$ 39,410	\$ 64,018	\$ 57,531	\$ 101,498
Accounts receivable	-	-	-	-	-
Total Assets	<u>\$ 38,769</u>	<u>\$ 39,410</u>	<u>\$ 64,018</u>	<u>\$ 57,531</u>	<u>\$ 101,498</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	38,769	39,410	64,018	57,531	101,498
Total Liabilities	<u>\$ 38,769</u>	<u>\$ 39,410</u>	<u>\$ 64,018</u>	<u>\$ 57,531</u>	<u>\$ 101,498</u>
	Foster Heights Elementary School	Nelson County High School	Bloomfield Elementary School	Total Agency Funds	
Assets					
Cash and cash equivalents	\$ 88,499	\$ 189,673	\$ 76,653	\$ 656,051	
Accounts receivable	-	-	-	-	
Total Assets	<u>\$ 88,499</u>	<u>\$ 189,673</u>	<u>\$ 76,653</u>	<u>656,051</u>	
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	-	
Due to student groups	88,499	189,673	76,653	656,051	
Total Liabilities	<u>\$ 88,499</u>	<u>\$ 189,673</u>	<u>\$ 76,653</u>	<u>656,051</u>	

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT**SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – ALL SCHOOLS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Cash Balance July 1, 2010	Receipts	Disbursements	Cash Balance June 30, 2011	Due to Student Groups June 30, 2011
Bloomfield Middle School	\$ 37,140	\$ 134,313	\$ 132,684	\$ 38,769	\$ 38,769
New Haven Elementary School	61,668	53,563	75,821	39,410	39,410
Boston Elementary School	55,379	74,096	65,457	64,018	64,018
Old Ky Home Middle School	91,118	139,977	173,564	57,531	57,531
Cox's Creek Elementary School	113,810	156,966	169,278	101,498	101,498
Foster Heights Elementary School	73,660	102,583	87,744	88,499	88,499
Nelson County High School	347,965	504,967	663,259	189,673	189,673
Bloomfield Elementary School	63,228	49,560	36,135	76,653	76,653
Totals	<u>\$ 843,968</u>	<u>\$ 1,216,025</u>	<u>\$ 1,403,942</u>	<u>\$ 656,051</u>	<u>\$ 656,051</u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – NELSON COUNTY HIGH SCHOOL

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Cash Balance July 1, 2010	Receipts	Disbursements	Cash Balance June 30, 2011	Due to Student Groups June 30, 2011
Administration	\$ 44,348	\$ 9,066	\$ 52,879	\$ 535	\$ 535
Athletic Vending	5,960	14,865	15,640	5,185	5,185
Banking for Students	287	-	153	134	134
Teachers' Lounge	9,957	6,549	13,658	2,848	2,848
Band	90	150	986	(746)	(746)
Field Trips	637	1,432	1,889	180	180
Cardinal Collection	1,625	34	-	1,659	1,659
Science	62	298	338	22	22
AP Tests	1,605	10,207	10,750	1,062	1,062
PTO	83	-	-	83	83
Drama	-	8,713	8,187	526	526
Guidance	103	789	283	609	609
Bowling Fees	1	-	-	1	1
FMD. ACCT.	950	18	731	237	237
Tuition	22,290	6,838	16,961	12,167	12,167
Library	4,237	1,580	1,017	4,800	4,800
Nurse	2,733	26	443	2,316	2,316
NOW	49,476	12,583	35,822	26,237	26,237
Partnership	414	-	328	86	86
Textbook - Lost/Damaged	17,811	3,906	14,272	7,445	7,445
Use of Building	-	10,910	5,575	5,335	5,335
Yearbook	20,383	5,484	1,335	24,532	24,532
Milk Vending	5,799	26,417	21,282	10,934	10,934
Smoking Cessation	1,378	205	-	1,583	1,583
ROTC - Unit Funds	8,617	10,247	9,686	9,178	9,178
Textbook Fees	26,808	19,510	24,765	21,553	21,553
Spirit Store	114	-	-	114	114
Art	4,388	1,343	1,045	4,686	4,686
Reimbursement Acct.	171	1,281	1,281	171	171
Freshman of Month	375	250	264	361	361
PE Class	7,642	4,305	6,674	5,273	5,273
Graduate Class	13,890	-	14,121	(231)	(231)
Math Dept.	66	71	75	62	62
Humanities Class	1,540	15,130	14,269	2,401	2,401
Class Credit Recovery	120	-	-	120	120
Special Ed. Acct.	145	-	-	145	145
Drama Trip - New York	18	-	-	18	18
Transition Acct.	715	1,067	1,450	332	332
NSF	-	229	-	229	229
Heritage Club	138	112	2,073	(1,823)	(1,823)
Key Club	1,495	5,093	4,767	1,821	1,821
Book Club - Page	24	39	52	11	11
FFA	188	21,835	23,372	(1,349)	(1,349)
Y Club	-	1,196	1,105	91	91
St. Council	5,400	-	5,000	400	400
Speech & Debate Team	41	-	-	41	41
Grade 9	-	-	-	-	-
Grade 10	1,391	-	-	1,391	1,391
Grade 11	3,559	8,522	8,556	3,525	3,525
Grade 12	1,445	28	840	633	633

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – NELSON COUNTY HIGH SCHOOL

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Cash Balance July 1, 2010	Receipts	Disbursements	Cash Balance June 30, 2011	Due to Student Groups June 30, 2011
National Honor Society	2,940	1,015	2,426	1,529	1,529
FFA - Corn Maze	2,188	30,347	31,542	993	993
Tech. Student Assoc.	1,196	-	-	1,196	1,196
AP Government Trip	11	-	(200)	211	211
Literary Magazine	99	62	81	80	80
Student Council	5,036	10,993	4,530	11,499	11,499
Ron Greenwell Scholarship	1,850	400	2,250	-	-
Cardinal Theatre	58	542	599	1	1
FFA - Hometown	-	923	-	923	923
Academic Team	471	250	271	450	450
CASA-SADD	546	-	-	546	546
FFA - Fruit Sales	-	13,239	12,363	876	876
Fellowship-Christian	395	452	210	637	637
FFA - Greenhouse	281	2,523	1,819	985	985
FFA - Floriculture	36	95	-	131	131
Future Educators	302	-	-	302	302
Outdoor Living	-	715	692	23	23
FFA - Region Lincoln	3,754	2,191	2,698	3,247	3,247
Girls' Golf	902	2,375	1,690	1,587	1,587
Girls' Soccer	178	-	1,973	(1,795)	(1,795)
Athletic	9,091	111,197	121,807	(1,519)	(1,519)
Boys' Basketball	5,816	13,021	23,304	(4,467)	(4,467)
Cardinal Concessions	-	11,748	6,216	5,532	5,532
Turf Account	8,797	15,652	28,481	(4,032)	(4,032)
Track	3,350	3,843	3,066	4,127	4,127
Caution Crew	781	4,849	1,444	4,186	4,186
Boys' Soccer	170	1,564	2,048	(314)	(314)
Pom Pom Squad	1,819	246	2,063	2	2
Archery	100	88	35	153	153
Cross Country	9,370	11,875	11,973	9,272	9,272
Tennis	557	1,114	1,400	271	271
Baseball	174	5,948	7,213	(1,091)	(1,091)
Girls' Softball	123	2,100	3,900	(1,677)	(1,677)
Volleyball	1,551	10,439	10,584	1,406	1,406
Boys' Golf	138	350	444	44	44
Swim Team	-	2,415	3,199	(784)	(784)
Cheerleaders	5,257	3,858	5,783	3,332	3,332
Winter Guard	8	-	-	8	8
Lady Cards' Basketball	-	6,552	10,655	(4,103)	(4,103)
Wrestling	-	1,061	-	1,061	1,061
Football Team	3,522	3,318	9,590	(2,750)	(2,750)
NC Elementary Boys	8,579	17,279	25,186	672	672
Sub Total	347,965	504,967	663,259	189,673	189,673
Transfers	-	64,301	64,301	-	-
TOTAL	\$ 347,965	\$ 569,268	\$ 727,560	\$ 189,673	\$ 189,673

See accompanying report of independent auditors.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department Of Education</u>			
Passed through the Kentucky Department of Education			
Title I Cluster			
Title I - Part A Cluster	84.010	3100	\$ 92,625
		3100D	14,532
		3101	481,526
		3101D	48,312
		3101M	3,274
			<hr/> 640,269
ARRA - Title I Grants to Local Educational Agencies	84.389	3919	50,896
		3919D	9,249
			<hr/> 60,145
TOTAL TITLE I CLUSTER			<hr/> 700,414
Special Education Cluster (IDEA)			
Special Education - Grants to State	84.027	3370	279,378
		3370P	29,727
		3371	645,405
		3371P	22,619
			<hr/> 977,129
Special Education - Preschool Grants	84.173	3430	44,258
		3430P	12,087
		3431	53,710
		3431	9,880
		3439	8,886
			<hr/> 128,821
ARRA - Special Education - Grants to States (IDEA, Part B)	84.391	4249	520,726
ARRA - Special Education - Preschool Grants (IDES, Preschool)	84.392	4239	22,454
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<hr/> 1,649,130
Vocational Education - Basic Grants to States	84.048	3481	24,595
Improving Teacher Quality - State Grants	84.367	4010	71,186
	84.367	4011	222,104
			<hr/> 293,290
Safe and Drug Free Schools and Communities - State Grants	84.186	4060	4,705
		5341D	112,419
			<hr/> 117,124
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	4250	45
	84.318	4251	2,071
			<hr/> 2,116
ARRA - Education Technology State Grants	84.386	4850	156
TOTAL EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			<hr/> 2,272

See accompanying report of independent auditors and
notes to the schedule of expenditures of federal wards

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department Of Education (Continued)</u>			
ARRA - Education for Homeless Children and Youth	84.387	3219	<u>2,396</u>
Education Jobs Funding	84.410	4411	<u>716,976</u>
Twenty-First Century Community Learning Centers	84.287	5500	149,062
		5500S	2,737
		5501	9,153
		5501S	4,178
		5509Z	<u>16,500</u>
			<u>181,630</u>
Total U.S. Department Of Education			<u><u>3,687,827</u></u>
<u>U.S. Department Of Agriculture</u>			
Child Nutrition Cluster:			
Cash Assistance			
Passed through the Kentucky Department of Education			
School Breakfast Program	10.553	090451999	370,305
National School Lunch Program	10 555	090451999	990,320
Noncash Assistance (Commodities)			
National School Lunch Program	10.555	090451999	<u>165,641</u>
Total U.S. Department Of Agriculture			<u><u>1,526,266</u></u>
<u>U.S. Department Of Energy</u>			
Passed through the Kentucky Department of Education			
ARRA - State Energy Program	81.041	5691	<u>6,337</u>
Total U.S. Department Of Energy			<u><u>6,337</u></u>
<u>U.S. Department Of Justice</u>			
Passed through the Kentucky Department of Education			
Public Safety Partnership and Community Policing Grants	16.710	4501	<u>39,847</u>
Total U.S. Department Of Justice			<u><u>39,847</u></u>
Total Federal Program Expenditures			<u><u>\$ 5,260,277</u></u>

See accompanying report of independent auditors and notes to the schedule of expenditures of federal wards

NELSON COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Nelson County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies(s) identified that are not considered to be material weakness(es)? X yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes no

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Section I – Summary of Auditor's Results – Continued

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
	Title I, Part A Cluster
84.010	Title I Grants to Local Education Agencies
84.389	ARRA – Title I Grants to Local Education Agencies
	Special Education Cluster (IDEA)
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.391	ARRA – Special Education Grants to States
84.392	ARRA – Special Education – Preschool Grants
84.410	Education Jobs Funding

Dollar threshold used to distinguish
Between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 yes

 X no

Section II – Financial Statement Findings

MATERIAL WEAKNESS

REFERENCE NUMBER 2011-01

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions.

Condition: As part of the audit we proposed material adjustments related to capital assets and long-term debt to the financial statements including prior period adjustments related to capital assets and long-term debt.

Cause: The District did not identify items to be included in construction in progress and long-term debt.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Section II – Financial Statement Findings – Continued

Effect: The design of the internal controls over fixed assets did not prevent material adjustments.

Recommendation: We recommend District's management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items. The District may consider hiring a consultant to assist with the preparation of the financial statements.

Management Response: Management will review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Section III – Federal Award Findings and Questioned Costs

SIGNIFICANT DEFICIENCY

REFERENCE NUMBER 2011-02

Criteria: The District's management is responsible for filing the Data Collection Form with the Federal Audit Clearinghouse as required under OMB Circular A-133 Compliance Supplement.

Condition: During our audit, we noted that the Data Collection Form had not been filed with the Federal Audit Clearinghouse for at least the past three years.

Cause: The District was not aware of the requirement to submit the Data Collection Form.

Effect: The design of the internal controls over compliance with major programs did not prevent this instance of non-compliance.

Recommendation: We recommend the District, in conjunction with their auditors, submit the Data Collection Form to the Federal Audit Clearinghouse in accordance with the OMB Circular A-133 Compliance Supplement.

Management Response: Management will file the current year Data Collection Form and will monitor the filing going forward.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2011

There were no findings or questioned costs reported in the prior year.

SMITH & COMPANY CPA's, PLLC

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of Nelson County School District as of and for the year ended June 30, 2011, which collectively comprise Nelson County School District's basic financial statements and have issued our report thereon dated November 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, Appendix I to the Independent Auditor's Contract-General Audit Requirement, *Appendix II to the Independent Auditor's Contract – State Audit Requirement*, and Appendix III to the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nelson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nelson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nelson County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and under the specific state statutes and regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and which is described in the accompanying schedule of findings and questioned costs as item 2011-02.

We also noted certain other matters that we reported to management of Nelson County School District in a separate letter dated November 8, 2011.

Nelson County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the board of education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Bardstown, Kentucky
November 8, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky

Compliance

We have audited the compliance of Nelson County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Nelson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Nelson County School District's management. Our responsibility is to express an opinion on Nelson County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix II to the Independent Auditor's Contract – State Audit Requirement, and Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nelson County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Nelson County School District's compliance with those requirements.

In our opinion, Nelson County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the

year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-02.

Internal Control Over Compliance

The management of Nelson County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nelson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nelson County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as items 2011-02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, members of the board of education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Bardstown, Kentucky
November 8, 2011

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Nelson County School District
Bardstown, Kentucky

In planning and performing our audit of the financial statements of Nelson County School District for the year ended June 30, 2011, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated November 8, 2011 contains our report on the District's internal control structure. This letter does not affect our report dated November 8, 2011 on the financial statements of the Nelson County School District.

We will review the status of our comments during our next audit engagement. We have already discussed the comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully,



Bardstown, Kentucky
November 8, 2011

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2011

CURRENT YEAR COMMENTS

School Activity Funds – Required Procedures

Criteria: The Kentucky Department of Education “Red Book” requires use of specific forms (or reasonable facsimiles) and various procedures for certain activities. The chart below summarizes conditions we noted during our audit.

Conditions:	BES	BMS	BS	FH ES	NC HS	NHS	OKH MS
Missing fundraiser worksheets				√		√	
No board approval for fundraising activity	√			√		√	
Multiple receipt forms used incorrectly	√	√					
Missing multiple receipt forms							√
Inventory control sheets not completed		√		√	√	√	
Sales tax paid on transaction		√					
Purchase orders not completed			√				
Bank reconciliation not approved			√				

Legend:

BES – Bloomfield Elementary School
BMS – Bloomfield Middle School
BS – Boston School
FHES – Foster Heights Elementary School
NCHS – Nelson County High School
OKHMS – Old Kentucky Home Middle School

Cause: School personnel and principals did not ensure Red Book compliance for the instances noted above.

Effect: Noncompliance with the Red Book policies and procedures could lead to the misappropriation of assets.

Recommendation: We recommend the principal and bookkeeper at each school review the “Red Book” and comply with the policy and procedure requirements.

Management’s Response: We have stressed compliance with the Red Book to both principals and bookkeepers and offer annual Red Book training.

STATUS OF PRIOR YEAR FINDINGS

The prior year finding related to the condition of payroll records has been addressed.